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STANDING COMMITTEE ON FINANCE
(2016-17)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

***[Action taken by the Government on the recommendations contained in Twenty-Ninth Report of the Standing Committee on Finance on* 'Demands for Grants (2016-17)]**

FORTIETH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2016 / Agrahayana, 1938 (Saka)

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***[Action taken by the Government on the recommendations contained in Twenty-Ninth Report of the Standing Committee on Finance on* 'Demands for Grants (2016-17)]**

Presented to Lok Sabha on 07 December, 2016

Laid in Rajya Sabha on 07 December, 2016

LOK SABHA SECRETARIAT
NEW DELHI

December, 2016 / Agrahayana, 1938 (Saka)

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** Not appended in the cyclostyled copy*

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2016-17

Dr. M. Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

2. Shri T.G. Venkatesh Babu
3. Shri Gopalakrishnan Chinnaraj
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Shyama Charan Gupta
7. Prof. Sanwar Lal Jat
8. Shri Rattan Lal Kataria
9. Shri Chandrakant B. Khaire
10. Shri Bhartruhari Mahtab
11. Shri Prem Das Rai
12. Shri Rayapati Sambasiva Rao
13. Prof. Saugata Roy
14. Shri Jyotiraditya M. Scindia
15. Shri Gajendra Singh Sekhawat
16. Shri Gopal Chinayya Shetty
17. Shri Anil Shirole
18. Dr. Kiritbhai Solanki
19. Dr. Kirit Somaiya
20. Shri Dinesh Trivedi
21. Shri Shivkumar C. Udasi

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri Satish Chandra Misra
25. Shri A. Navaneethakrishnan
26. Dr. Mahendra Prasad
27. Shri C.M. Ramesh
28. Shri T.K. Rangarajan
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Ms. Melody Vungthiansiam	-	Committee Assistant

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having beenauthorized by the Committee, present this Fortieth Report on action taken by Government on the Observations / Recommendations contained in the Twenty Ninth Report of the Committee (Sixteenth Lok Sabha) on "Demands for Grants (2016-17)" of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services And Disinvestment).

2. The Twenty-Ninth Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 28 April, 2016. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 27 July, 2016.

3. The Committee considered and adopted this Report at their sitting held on 30 November, 2016.

4. An analysis of the action taken by the Government on the recommendations contained in the Twenty-Ninth Report of the Committee is given in the Appendix.

5. For facility of reference, the observations / recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
01 December, 2016
10 Agrahayana, 1938 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance.

REPORT

CHAPTER – I

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their 29th Report (Sixteenth Lok Sabha) on Demands for Grants (2016-17) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Lok Sabha / Laid in Rajya Sabha on 28 April, 2016.

2. The Action Taken Notes have been received from the Government in respect of all the 14 recommendations contained in the Report. These have been analyzed and categorized as follows:

(i) Recommendations/Observations that have been accepted by the Government:

Recommendation Nos. 1,2,3,4,5,6,7,8,9,10,11,12,13&14

(Total 14)
(Chapter- II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

NIL

(Total NIL)
(Chapter- III)

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:

NIL

(Total NIL)
(Chapter -IV)

(iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:

NIL

(Total - NIL)
(Chapter- V)

3. The Committee desire that the replies to the observations/recommendations contained in Chapter-I may be furnished to them expeditiously.

4. The Committee will now deal with and comment upon the action taken by the Government on some of their recommendations.

Recommendation (Sl. No.3)

5. The Committee find that the announcements made in Budget Speech no doubt make the public happy and also hopeful for a better future. However, these announcements, in certain cases, do not result in matching allocations and purposeful utilisation. For instance, Union Budget 2014-15 announced "Rs. 10,000 crore fund allocation to act as a catalyst to attract private capital by way of providing equity, quasi-equity...soft loans and other risk capital for start-up companies". However, there was no commensurate allocation in 2014-15 under the relevant Head of Account - Investment (India Aspiration Fund). In January, 2016 Rs. 500 crore was allocated, which remained unutilised till 31 March, 2016. Similarly, budget announcement was made in 2015-16 for agriculture sector; accordingly, Rs. 1,800 crore was allocated for Pradhan Mantri Krishi Sinchai Yojana Scheme, out of which, only Rs. 1,223 has been released as on 20 January, 2016 and out of Rs. 300 crore allocated for 2015-16under Paramparagat Krishi Yojana, only Rs. 197 crore has been released till 12 January, 2016. The Government, "in order to support programmes for women security, advocacy and awareness" decided to "provide another Rs. 1000 crore to the Nirbhaya Fund" (as per Budget 2015-16). However, as on January 2016, only Rs. 10.71 crore and Rs. 13.92 crore have been utilised for funding 'One Stop Centre' and 'Women Helpline' respectively towards women safety. Similar is the position on the achievement vis-a-vis targets under social security schemes such as Atal Pension Yojana (about 10% as on January, 2016). There are also announcements like the setting up of AIIMS in States like Jharkhand which have not materialised so far despite large time lag.

6. In their action taken reply the Ministry of Finance have furnished the following written reply as stated under:

"The Budget announcements reflect the commitment of the Government which is followed up with appropriate appraisal/approval processes including approvals of the Cabinet over the specified limits of delegation to Ministries/Departments. However, keeping in view the fiscal limits under FRBM Act and competing needs of various sectors, the allocations in budget during a particular financial year are made on the basis of actual needs and the pace of expenditure, so as to avoid savings/surrender at the end of the year. The Government is however committed to provide further funds in due course commensurate with the announcements made."

Recommendation (Sl. No. 4)

7. The Committee are of the view that such instances of budgetary allocations as well as actual expenditure not living up to the budgetary announcements cannot but reflect on the credibility of the Government in implementing these steps on ground. It also reflects lack of efficiency of the administrative machinery and inadequate followup. The Committee would, therefore, expect the Ministry of Finance to constantly monitor and follow-up on the implementation of the well-intended budgetary announcements of the Government (such as the afore-mentioned instances) so that outcomes and visible results are shown without undue time-lag to the beneficiaries in specific and people in general.

8. The reply of Ministry of Finance is as given below:

"The recommendations of the Committee are accepted".

9. The Committee note from the reply of the Ministry that the Budget announcements reflect the commitment of the Government and do not result in matching allocations due to fiscal limits under the FRBM Act and that allocations are made on the basis of actual needs and pace of expenditure. They are not convinced by the reply furnished by the Government. The Committee are of the

view that such analysis and consideration of actual needs and quantum of expenditure should form the basis of the Budget so that the lingering issue of time-lag in utilisation of funds and implementation of programmes is duly reflected and promptly addressed. The Committee, therefore, reiterate that the Ministry should constantly monitor and follow-up on the implementation of well-intended budgetary announcements of the Government, so that outcomes and visible results are shown without undue time-lag to the intended beneficiaries in specific and people in general.

Recommendation (Sl. No. 5)

10. From the reply furnished by Ministry of Finance, the Committee understand that the additional central assistance in the form of block grants has got subsumed in the higher devolution recommended by the Fourteenth Finance Commission which has endeavoured to fill the resource gaps of each state to the extent possible. Tax Devolution and Grants-in-aid to the States is estimated to be Rs. 44, 77,472 crore i.e. 163% more than Rs. 17, 16,699 crore recommended by the 13th Finance Commission. It was also stated that "availability of untied funds at the disposal of the States shall enable greater autonomy, flexibility in financing and design of schemes as per State's local needs''. The Committee, however, believe that the more needy and backward States may prefer an arrangement of scheme - specific transfer of funds from the Centre, as they may not have the desired capability to formulate and fund their own schemes and at times need hand-holding from the Centre in implementation of many schemes/areas of activity for development. Such curtailing of Central share has put States in difficulty.

11. In their action taken reply the Ministry of Finance have submitted as follows:-

"Fourteenth Finance Commission (FFC) has recommended release of the following grants-in-aid to State Governments during its award period 2015-20:

(Rs. in Crore)

i	Post-Devolution Revenue Deficit Grant	194821
ii	Local Bodies	287436
iii	Disaster Management (SDRF)	55097
	Total	537354

In para 11.31 of its Report, FFC has observed that "After considerable deliberations, we have come to the conclusion that grants for both sector-specific and state-specific schemes by Finance Commission are not necessary".

Substantial increase in tax devolution and grant-in-aid recommended by FFC are expected to add substantial spending capacity through States' budgets and give fiscal autonomy to the States. A major step in the process has been achieved by transferring more resources to the States in the nature of untied funds so that States may make and implement schemes or programmes which are best suited to the local needs, requirements and aspirations of people. This will provide required flexibility to the States to address meaningfully the contextual needs and to develop as per their genius. FFC is a constitutional body, which took into account the presentations made by all States. The recommendations of FFC have been accepted in accordance with convention.

Shiv Raj Sigh Chauhan Committee constituted under aegis of NITI Aayog for deciding on the sharing pattern of CSS has recommended that the funding pattern of the schemes namely MGNREGA, NSAP, UMBRELLA Programmes for development of SC, ST, differently abled person, minorities, backward classes and vulnerable group will remain unchanged. The funding pattern of the 17 core schemes, which form part of the National Development Agenda, will be retained with the sharing pattern of 60:40 between the Centre and the States (90:10 for the 8 North-Eastern and 3 Himalayan States). All other schemes will be optional for the State Governments and their fund sharing pattern will be 50:50 between the Centre and the States (80:20 for the 8 North-Eastern and 3 Himalayan States).

In addition to this, a new budget line in the name of Special Assistance was introduced in 2015-16 for providing assistance for committed spill over liabilities pertaining to area specific schemes and projects for which budget provision is not made after the implementation of 14th Finance Commission (FFC) recommendations and need-based assistance to the States, depending upon requirements due to varying socio-economic-geographical factors. After making re-appropriation of Rs. 1560 crore (out of the total RE 2015-16 of Rs. 12,450 crore), to disbursed assistance to the States under NDRF, the Union Government provided special assistance of Rs. 10890 crore in total to the States during 2015-16. The special assistance of about Rs. 3526.78 crore was released to the State(s) to discharge spill over committed liabilities under sub-components of BRGF in the FY 2015-16. The one time assistance towards support to States to deal with post FFC issues to the States of Manipur, Sikkim, Tamil Nadu, Tripura & Uttaranchal was also included under this head. This hand-holding from the Centre in implementation of some schemes/areas of activity for development, especially in case of the more needy and backward States, has been done in consultation with NITI Aayog which is in line with the recommendations / observations of the standing committee."

Recommendation (Sl. No. 6)

12. The capacity to absorb funds within a particular State varies from State to State depending on local disparities. The Committee would suggest that issues of both inter-State and intra-State inequality and disparity should be addresses while devising arrangements for financial transfers. The Finance Commission award to States can no doubt be deployed to good effect. However, the Committee feel that a smooth transition should be worked out in funding arrangements, particularly with regard to long-term policy initiatives such as irrigation, crop insurance etc., which would require generous central support till the coverage improves.

13. In their action taken reply the Ministry of Finance have submitted as follows:-

"A long pending demand of the States have been to abandon the approach of '*one size fits all'* and tailor their Plans to suit their needs and requirements rather

than getting scheme based allocations under various centrally sponsored schemes. The Union Government at the same time is committed to selectively intervene in core areas of National importance which can be intra-state or inter-State in nature, for removing regional imbalances and to address differential deprivation in the society. However, higher devolution of central taxes at 42% has reduced the fiscal space available to the Centre for implementing various centrally sponsored schemes. The various grants recommended by FFC are released to States in accordance with the recommendations of and conditionalities stipulated by FFC.

With regard to central support for a smooth transition in funding arrangements, the allocation of Rs. 9,000 crore has been made under 'Special Assistance' and Rs. 1000 crore under Grant to Autonomous Councils, areas covered under sixth schedule in BE 2016-17. 'Special Assistance' is meant to respond to emerging/ unanticipated needs from time to time which is very much in line with the indication of Standing Committee. The Special Assistance for the amount shall be provided to the States during 2016-17 in consultation with NITI Aayog. "

14. The Committee note that the Fourteenth Finance Commission (FFC) have recommended release of a total of Rs. 5,37,354 crore as grants-in-aid to State Governments during 2015-20 out of which Rs. 1,94,821 crore goes to Post-Devolution Revenue Deficit Grant, Rs. 2,87,436 is for Local Bodies and Rs. 55,097 crore is for Disaster Management (SDRF). The Ministry have also referred to Para 11.31 of FFC's report wherein it *inter-alia* states "after considerable deliberations, we have come to the conclusion that grants for both sector-specific and state-specific schemes by Finance Commission are not necessary." The Ministry have also submitted that a new budget line in the name of Special Assistance was introduced in 2015-16 for providing assistance for committed

spill over liabilities pertaining to area specific schemes and projects and need-based assistance to states, for which budget provision is not being made after the implementation of 14th Finance Commission (FFC) recommendations. Accordingly, the allocation of Rs. 9,000 crore has been made under 'Special Assistance' and Rs. 1000 crore under Grant to Autonomous Councils and areas covered under Sixth Schedule in BE 2016-17. The Committee are, however, not convinced by the reply furnished by the Ministry. The Committee are constrained to point out that fund sharing pattern between Centre and States has changed in many of the Centrally Sponsored Schemes, leading to incomplete projects, leaving the implementation of the schemes midway, as the State Governments do not have adequate resources to pursue them. The Committee, therefore, reiterate that the more needy and backward states/ areas/ regions may still prefer an arrangement of scheme-specific transfer of funds from the Centre, as they may not have the desired capability to formulate and fund their own schemes. They may thus need some hand-holding from the Centre to implement certain developmental schemes.

Recommendation (Sl. No.9)

15. The Committee are constrained to express their displeasure over the fact that money collected by way of cess was not being utilised for the designated purpose. For instance, as per findings of C&AG Report, cess collected under Research and Development Cess Fund from 1996-97 to 2014-15 was Rs 5,783.49 crore; out of this only Rs. 549.16 (9.6 per cent) was disbursed as Grants-in-aid to Technology Development Board during the same period. Similarly, cesses collected under Primary Education cess and Central Road Fund cess during2010-11 to 2014-15 have reported shortfall in transfer/utilisation to the tune of Rs. 13,298 crore and Rs. 1,219.88 crore

respectively; cess proceeds were collected during 2006-15 under Secondary and Higher Education Cess to the tune of Rs. 64,228 crore, but neither a fund was designated to deposit the cess proceeds nor schemes identified on which the cess proceeds were to be spent. There were other funds as well where the cess proceeds have been lying unutilised with detrimental impact on national finances. The rationale of a cess is that the money it generates can only be used for the designated purpose, which makes it an effective policy tool in theory. However, if the money is not spent for the designated purpose or is diverted, it simply stagnates and distorts the economy further, as the additional tax brings down real incomes without any accompanying gain insocio-economic indicators as targeted. With the Fourteenth Finance Commission increasing States share of the common pool of resources, cesses are being used for the Centre to shore up its own finances.

Without disapproving of this fiscal objective, the Committee would recommend that the government should disclose a deployment plan for all the cess proceeds already collected under various heads with a view to achieving the intended outcomes from respective cess collections before the next such levy is imposed.

16. In their action taken reply the Ministry of Finance have submitted as follows:-

"In so far as Research and Development Cess is concerned, Ministry of Finance has been working in consultation with Ministry of Science and Technology to expand the areas/sectors for utilization of the Technology Development/Research and Development Cess Fund. As regards, utilization of Secondary and Higher Education Cess, It is submitted that the budget allocation to Department of Higher Education is much higher than the actual collection of cess. However, Ministry of Finance has asked Ministry of Human Resource Development to move a Cabinet Note for creation of a non-lapsable fund namely; 'Madhyamik and Uchchatar Shiksha Kosh' It is pertinent to mention that in the Financial Year 2017-18 Budget, attempts will be made to modify the receipt budget to transparently reflect collection of each cess.

As regards the recommendation that the government should disclose a deployment plan for all the cess proceeds already collected before the next such levy is accepted, the recommendations of the Committee are accepted."

17. The Committee note that regarding Research and Development cess, Ministry of Finance has been working in consultation with Ministry of Science and Technology to expand the areas/sectors for utilization of the Technology Development/Research and Development Cess Fund. The Ministry have also submitted that as regards utilization of Secondary and Higher Education Cess, the budget allocation to Department of Higher Education is much higher than the actual collection of cess and that the Ministry of Finance has asked Ministry of Human Resource Development to move a Cabinet Note for creation of a non-lapsable fund namely 'Madhyamik and Uchchatar Shiksha Kosh' . The Ministry have further informed that in the Financial Year 2017-18 Budget, attempts will be made to modify the receipt budget so as to coherently reflect collection of each cess. From the reply furnished by the Government, the Committee find that the Ministry of Finance have not so far put in place a mechanism to ensure that cess proceeds are utilized for its designated purpose. The Committee would thus once again point out that if the money collected from tax-payers is not spent for the designated purpose or is diverted, it would distort the economic objectives, as the additional tax would only bring down real incomes without any accompanying gain in socio-economic indicators as targeted. The Committee, therefore, urge the Ministry of Finance to address this issue with due seriousness.

Minutes of the Seventh sitting of the Standing Committee on Finance The Committee sat on Wednesday, the 30 November, 2016 from 1500 hrs. to 1615 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri T.G. Venkatesh Babu
3. Shri Gopalakrishnan Chinnaraj
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Prof. Sanwar Lal Jat
7. Shri Chandrakant B. Khaire
8. Shri Bhartruhari Mahtab
9. Shri Prem Das Rai
10. Shri Rayapati Sambasiva Rao
11. Shri Gajendra Singh Sekhawat
12. Shri Gopal Chinayya Shetty
13. Shri Anil Shirole
14. Dr. Kiritbhai Solanki
15. Dr. Kirit Somaiya
16. Shri Dinesh Trivedi
17. Shri Shivkumar Udasi

RAJYA SABHA

18. Shri Naresh Gujral
19. Shri A. Navaneethakrishnan
20. Dr. Mahendra Prasad
21. Shri T.K. Rangarajan
22. Shri Ajay Sancheti
23. Shri Digvijaya Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

XX XX XX XX XX XX

2. XX XX XX XX XX XX.

3. Thereafter, the Committee took up the following draft reports for consideration and adoption:

(i) Draft Report on 'The Companies (Amendment) Bill, 2016

(ii) Draft Report on Action Taken by the Government on the Recommendations contained in the 20th Report (16th Lok Sabha) on "Planning Process - A Review "

(iii) Draft Report on Action Taken by the Government on the Recommendations contained in the 27th Report (16th Lok Sabha) on "Non - Performing Assets Of Financial Institutions "

(iv) Draft Report on Action Taken by the Government on the Recommendations contained in the 29th Report on Demands For Grants (2016-17) of the Ministry of Finance (Departments of Economics Affairs, Expenditure, Financial Services and Disinvestment.

(v) Draft Report on Action Taken by the Government on the Recommendations contained in the 30th Report on Demands For Grants (2016-17) of the Ministry of Finance (Department of Revenue).

(vi) Draft Report on Action Taken by the Government on the Recommendations contained in the 31st Report on Demands For Grants (2016-17) of the Ministry of Planning.

(vii) Draft Report on Action Taken by the Government on the Recommendations contained in the 33rd Report on Demands For Grants (2016-17) of the Ministry of Statistics and Programme Implementation.

After some deliberations, the Committee adopted the above draft Reports with minor modifications and authorised the Chairperson to finalise them and present these Reports to Parliament.

4. XX XX XX XX XX XX.

The Committee then adjourned.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TWENTY NINTH REPORT OF THE STANDING COMMITTEE ON FINANCE (SIXTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2016-17) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

		Total	% of total
(i)	Total number of Recommendations	14	
(ii)	Recommendations/Observations which have been accepted by the Government (vide Recommendation at Sl.Nos.1,2,3,4,5,6,7,8,9,10,11,12,13 & 14)	14	100%
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	Nil	0.00
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee	Nil	0.00
(v)	Recommendations/Observations in respect of which final reply of the Government are still awaited	Nil	0.00